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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

In the Matter of)
)
Revision to Amend Part 32,)
Uniform System of Accounts for) CC Docket No. 95-60
Class A and Class B Telephone) RM 8448
Companies to Raise the Expense Limit)
for Certain Items of Equipment from)
\$500 to \$750)

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COMMENTS OF
SOUTHWESTERN BELL TELEPHONE COMPANY

Southwestern Bell Telephone Company (SWBT), by its attorneys, respectfully submits its Comments in response to the Commission's Notice of Proposed Rulemaking (NPRM)¹ in the above-referenced proceeding.

I. INTRODUCTION

In response to a request by the United States Telephone Association (USTA) to increase the expense limit from \$500 to \$2,000, which was opposed by only one commenter, the Commission proposes to increase it to only \$750. Given that the NPRM admits that \$750 would barely be sufficient to cover inflation over the next five years,² it is clear that the Commission has completely ignored other significant factors in determining the amount of the increase. In these Comments, SWBT highlights some of the significant competitive, technological and other factors that the Commission has failed to consider and urges the Commission not to continue applying the conservative regulatory standards of the

¹ CC Docket No. 95-60, RM 8448 (released May 31, 1995).

² NPRM, ¶ 9.

past.³ A streamlined approach is especially critical at a time when local exchange carriers (LECs) need more breathing room to compete with new entrants, against which the Commission does not enforce similar restrictions. When all the relevant factors are given adequate consideration alongside inflation, there is more than sufficient evidence to support an increase to \$2,000.

II. THE NPRM'S PROPOSED ADJUSTMENT FAILS TO GIVE ADEQUATE CONSIDERATION TO FACTORS OTHER THAN INFLATION.

While the NPRM purports to recognize changes in the competitive environment and in technology as factors in determining the expense limit,⁴ its proposed action gives them much less weight than inflation. The NPRM unwisely chooses to stick closer to the "amount indicated strictly by inflation" than any prior adjustment to the expense limit, at a time when other factors are becoming vastly more important. More so than at the time of prior adjustments, the increase should be based less on inflation than on other factors, such as, the rapidly increasing level of competition for LEC services, LECs' competitors' freedom from similar regulations, expense limits used by unregulated companies and by other regulators, cost vs. benefit analysis given the administrative costs of maintaining inventory records and the accelerating rate of technological change.

³ See Revision to Amend Part 31, Uniform System of Accounts for Class A and Class B Telephone Companies as it Relates to the Treatment of Certain Individual Items of Furniture and Equipment Costing \$500 or Less, 3 FCC Rcd 4464 ¶ 10 (1988) ("There is evidence to suggest that our [300%] increase in 1982 was very conservative even for that time.")

⁴ NPRM, ¶ 9.

A comparison of the history of the Commission's expense limit adjustments to the level of inflation (as indicated by the GDP Implicit Price Deflator) shows that the NPRM's proposal gives inflation more weight than in previous adjustments while minimizing the weight given to other factors:

<u>Year</u>	<u>GDP⁵</u>	<u>%Increase</u>	<u>Expense Limit</u>	<u>%Increase</u>
1967	30.3		\$ 25	
1974	44.9	48%	\$ 50	100%
1981	78.9	76%	\$200	300%
1988	103.9	32%	\$500	150%
1994	127	22%	\$750	50%

As this chart reflects, inflation is a more predominant factor in the NPRM's proposed adjustment than the previous adjustments. In fact, if the proposed adjustment is supposed to last as long as previous adjustments -- which is unlikely given the rapidly changing competitive, technological and regulatory environment and the small amount of the increase -- then, inflation is clearly the only factor covered by the NPRM's proposal.⁶

Adoption of the NPRM's proposal would be an arbitrary refusal to give sufficient consideration to other factors, especially given that it would reflect the least consideration of

⁵ GDP - Implicit Price Deflator. Department of Commerce, Survey of Current Business.

⁶ Even the language of the NPRM impliedly admits that inflation is the only factor given meaningful consideration (i.e., other than "lip service"): "Raising the expense limit to \$750 . . . would eliminate the need to adjust the cap because of inflation for approximately five years." NPRM, ¶ 9. This proposition in the NPRM is only supportable if the other factors are not given any weight whatsoever.

other factors when they have become the most significant by far. While these other factors may not be as easy to quantify as inflation, they should be given adequate consideration by increasing the expense limit to \$2,000.

III. PROPER CONSIDERATION OF FACTORS IN ADDITION TO INFLATION SUPPORT AN EXPENSE LIMIT SUBSTANTIALLY HIGHER THAN \$750.

Much has changed in LECs' competitive environment since the last expense adjustment and SWBT anticipates even more rigorous competition for its regulated services in the near future. Increasingly, SWBT faces competition from competitive access providers, private networks, interexchange carriers, resellers, cellular providers and others. Under legislation enacted a few weeks ago in Texas, SWBT is likely to face increased competition for its core regulated residential and business services, as it will be much easier for competitors to obtain approval to provide or resell local exchange service.⁷ With this rapidly increasing level of competition, it is imperative that unnecessary and burdensome regulation, such as the expense limit, be kept up-to-date or eliminated. This is especially true of regulation that is irrelevant to the rates a carrier charges, as is the case for LECs regulated under the "no sharing" price cap option.

In this competitive environment, LECs must be given the flexibility necessary to operate more efficiently, without being saddled with unnecessary and burdensome regulation. LECs must have this flexibility in order to compete effectively with such competitors that are not subject to similar regulation. LECs

⁷ H.B. 2128, 1995 Tex. Sess. Law Serv. _____ (Vernon).

cannot manage their property record systems efficiently if they are required to track enormous volumes of equipment, such as personal computers (PCs), used by almost all employees. Small value items comprise about 40% of administrative costs, and yet, are only four or five percent of the total asset balance. From a cost/benefit perspective, the property record system cannot be justified, especially for these small value items.⁸

In addition, rapid changes in technology have significantly reduced the lives of many such small value items. For example, a few years ago, a 286 PC was considered state-of-the-art. Today, most users have 486s, but purchasers of new PCs are most likely to buy Pentiums. The lives of such products will only continue to grow shorter as rapid technological innovations continue. Tracking the movement and disposition of items with such a high turn-over rate is inefficient and costly.

The Commission should also consider the higher cost of implementation of periodic small increases in the expense limit compared to a single forward-looking increase. Any change in the expense limit requires extensive programming, database and procedure revisions. It would be much more cost-effective for LECs, as well as efficient from a regulatory perspective, to have a single increase to \$2,000 than to have an increase to an intermediate point now and a subsequent increase to \$2,000, when

⁸ For many of the same reasons, SWBT also recently supported the USTA's Petition for Rulemaking to eliminate detailed property records for certain support assets. See Comments of SWBT, filed on July 5, 1995 in Petition for Rulemaking to Amend Part 32 of the Commission's Rules to Eliminate Detailed Property Records for Certain Support Assets, RM-8640, Public Notice (released May 10, 1990).

the Commission realizes that the intermediate point was inadequate.

When LECs' competitive and regulatory environments, rapid technological change and other factors are given full consideration alongside inflation, they present a compelling case to increase the expense limit to at least \$2,000.

IV. THE COMMISSION SHOULD CONSIDER THE EXPENSE LIMIT USED BY OTHER COMPANIES, BOTH REGULATED AND UNREGULATED.

In adopting the 150% increase in the expense limit in 1988, the Commission took into consideration the expense limit imposed by other regulatory bodies.⁹ The Commission should consider this factor again. However, before looking to other regulatory bodies, the Commission should consider the fact that its cable operator USOA does not contain any monetary expense limit at all.¹⁰ Interexchange carriers and cellular carriers are also not subject to any similar expense limit. Particularly in light of the convergence of these markets with those of the LECs, the Commission should at least adopt some measure of flexibility for LECs facing competition from these Commission-regulated groups.¹¹ The Commission should consider not only the current state of competition but also the reduced barriers to entry by such

⁹ 3 FCC Rcd 4464 ¶ 8.

¹⁰ See Implementation of Sections of the Cable Television Consumer Protection and Competition Act of 1992: Rate Regulation, 9 FCC Rcd 4527 ¶ 126 and Attachment C (1994). The Commission decided to allow cable operators to use GAAP as the guide for "the determination of costs to be expensed and those that must be capitalized by each cable operator." Id. ¶ 126.

¹¹ Cf. Bell Atlantic Telephone Companies Revisions to Tariff F.C.C. No. 10 Rates, Terms and Regulations, Transmittal Nos. 741, 786, Statement of Commissioner Barrett at p. 2 (released June 9, 1995).

competitors, such as the reduction resulting from the Texas legislation mentioned previously.

Evidence from other industries likewise supports a greater increase in the expense limit than the NPRM proposes. Under Federal Acquisition Regulations, government contractors have been subject to a \$1,500 expense limit since September 1988.¹² In 1990, the Interstate Commerce Commission adopted a \$5,000 expense limit under the USOA applicable to railroads, which is indexed once a year (in \$500 increments) based on the Producer Price Index.¹³

The Commission should also consider the expense standard used in those industries that are not subject to any monetary expense limit at all (i.e., other than GAAP guidelines). In a competitive environment, those LECs that are subject to little, if any, cost-based regulation should not be subject to an arbitrarily selected expense limit which is below what is considered reasonable in competitive industries.

V. LECS SHOULD BE PERMITTED TO AMORTIZE THE EMBEDDED INVESTMENT OVER THE REMAINING LIFE OF THE AFFECTED ASSETS.

USTA's proposed handling of the embedded investment is entirely appropriate. There are no adverse consequences for ratepayers that would result from the proposal to amortize the embedded investment over the corresponding remaining asset life. As the NPRM acknowledges, initial implementation of USTA's proposal would be revenue neutral. What the NPRM fails to acknowledge is

¹² Cost Accounting Standards Board, Office of Federal Procurement Policy, OMB, Final Rules, 53 Fed. Reg. 27460 (July 20, 1988), codified at 48 C.F.R. § 9904.404-40.

¹³ 49 C.F.R. Part 1201.

that subsequent increases in expenses due to new purchases would be offset by ongoing decreases in depreciation expense and administrative costs over the life of the asset.¹⁴ In any event, the de minimis impact, if any, of USTA's proposal following initial implementation, is fully justified by the reasons supporting adoption of the expense limit adjustment.

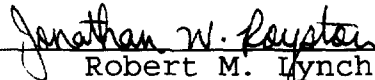
VI. CONCLUSION

For the reasons discussed in these Comments, the Commission should adopt USTA's original proposal to increase the expense limit to \$2,000 and permit LECs to amortize the embedded investment over the remaining life of the affected assets.

Respectfully submitted,

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¹⁴ Of course, USTA's proposal would have even less, if any, impact with respect to future purchases for those LECs that are subject to price cap regulation.

CERTIFICATE OF SERVICE

I, Martha Marshalek, hereby certify that the foregoing Comments of Southwestern Bell Telephone Company, Docket No. 95-60 (RM-8448), have been served this 24th day of July, 1995 to the Parties of Record.

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July 24, 1995

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